

## Message Text

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ACTION EUR-25

INFO OCT-01 EA-11 ISO-00 SPC-03 AID-20 EB-11 NSC-07 RSC-01

CIEP-02 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 CIAE-00

COME-00 FRB-02 INR-10 NSAE-00 XMB-07 OPIC-12 LAB-06

SIL-01 ABF-01 FS-01 IO-14 DODE-00 PM-07 H-03 L-03

PA-04 PRS-01 USIA-15 DRC-01 /200 W

----- 083710

R 131410Z MAR 74

FM AMEMBASSY ROME

TO SECSTATE WASHDC 3700

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

USMISSION EC BRUSSELS

AMEMBASSY THE HAGUE

AMEMBASSY LONDON

AMEMBASSY OTTAWA

AMCONSUL MILAN

AMCONSUL NAPLES

AMEMBASSY PARIS

USMISSION OECD PARIS

AMEMBASSY STOCKHOLM

AMEMBASSY TOKYO

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E.O. 11652: N/A

TAGS: EFIN, IT

SUBJECT: ITALIAN STABILIZATION PROGRAM

REF: STATE 047426

1. BEGIN LIMITED OFFICIAL USE. PER REFTEL, TREASURY  
ATTACHE APPROACHED MINISTRY OF TREASURY (PALUMBO)  
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IN ATTEMPT TO OBTAIN COPY OF ORIGINAL ENGLISH

VERSION OF LETTER OF INTENT. PALUMBO SAID DOCUMENT HAD BEEN HELD VERY CLOSELY WITHIN GOI AND NEITHER BOI NOR TREASURY HAD LEAKED CONTENTS TO PRESS. (MILAN FINANCIAL DAILY "IL SOLE/24 ORE" PUBLISHED SUPPOSED TEXT IN ITALIAN ON MARCH 10.) GIVEN CONFIDENTIAL NATURE OF NEGOTIATIONS BETWEEN GOI AND IMF, TREASURY OFFICIAL STRONGLY REGRETTED THAT LETTER WAS LEAKED. BECAUSE CONTENTS OF LETTER ARE STILL CONSIDERED CONFIDENTIAL BY GOI OFFICIALS, FOLLOWING VERSION IS INFORMAL TRANSLATION OF PURPORTED TEXT PUBLISHED BY "24 ORE." END LIMITED OFFICIAL USE.

2. BEGIN UNCLASSIFIED. BEGIN QUOTE. PARA 1. THE GOVERNMENT OF ITALY HEREBY SUBMITS AN APPLICATION TO THE IMF FOR A STAND-BY CREDIT UNDER WHICH THE GOVERNMENT OF ITALY SHALL HAVE THE RIGHT FOR A PERIOD OF ONE YEAR, AFTER HAVING FULLY UTILIZED ITS OWN "GOLD TRANCHE," TO ACQUIRE FROM THE FUND CURRENCIES OF OTHER MEMBER COUNTRIES AGAINST ITALIAN LIRE, UP TO THE AMOUNT EQUIVALENT TO ONE BILLION SDR'S. BEFORE PROCEEDING TO DRAW AGAINST THIS LINE OF CREDIT, THE GOVERNMENT SHALL CONSULT WITH THE MANAGING DIRECTOR OF THE FUND WITH RESPECT TO THE SPECIFIC CURRENCIES TO BE ACQUIRED FROM THE FUND.

3. PARA 2. THE PURPOSE OF THIS LINE OF CREDIT IS TO SUPPORT THE ECONOMIC POLICIES WHICH THE GOVERNMENT OF ITALY INTENDS TO PURSUE IN ORDER TO STRENGTHEN ITS BALANCE OF PAYMENTS POSITION AND TO ALLEVIATE DOMESTIC INFLATIONARY PRESSURES, AT THE SAME TIME TAKING INTO CONSIDERATION THE NEED TO MAINTAIN A HIGH LEVEL OF UTILIZATION OF AVAILABLE RESOURCES.

4. PARA 3. IN 1973 THE CURRENT ACCOUNT DEFICIT OF THE BALANCE OF PAYMENTS WAS ESTIMATED AT 1,300 BILLION LIRE (TAKING INTO ACCOUNT AN ADJUSTMENT OF 600 BILLION LIRE NECESSARY TO OFFSET THE UNDERVALUATION OF NET CURRENT REVENUES). THE RECENT INCREASES IN CRUDE OIL PRICES WILL RESULT IN A FURTHER SUBSTANTIAL INCREASE IN THIS DEFICIT. IT IS THE FIRM INTENTION OF THE GOVERNMENT OF ITALY TO REDUCE SUBSTANTIALLY DURING 1974, AND TO LIMITED OFFICIAL USE

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ELIMINATE BEFORE THE END OF 1975, THE "NON-OIL" CURRENT ACCOUNT DEFICIT, I.E., THAT PART OF THE CURRENT ACCOUNT DEFICIT WHICH IS NOT DIRECTLY ATTRIBUTABLE TO THE INCREASED OIL DEFICIT RESULTING FROM THE INCREASE IN THE PRICE OF CRUDE OVER AND ABOVE THE AVERAGE PRICE LEVEL QUOTED IN 1973. THE GOVERNMENT INTENDS TO ADAPT ITS ECONOMIC POLICIES TO THE OBJECTIVE OF ACHIEVING A NOTABLE STRENGTHENING OF THE PRIVATE

CAPITAL ACCOUNT.

5. PARA 4. IN ORDER TO ACHIEVE THIS GOAL WITH RESPECT TO THE CURRENT ACCOUNT, IT WILL BE NECESSARY TO PURSUE INTERNAL ECONOMIC POLICIES WHICH WOULD PERMIT THE ALLOCATION OF PRODUCTIVE CAPACITY SO AS TO MAKE POSSIBLE THE NECESSARY EXPANSION OF EXPORTS AND CONTAIN THE DEMAND FOR IMPORTS. IN VIEW OF THIS, THE GOVERNMENT SHALL ADOPT CONSISTENT POLICIES IN THE MONETARY, TAX AND BUDGET FIELDS, AS WELL AS SELECTIVE MEASURES INTENDED TO MODIFY THE COMPOSITION OF DOMESTIC DEMAND.

6. PARA 5. THE GOVERNMENT SHALL UNDERTAKE MEASURES TO INSURE THAT THE DOMESTIC PRICES OF REFINED OIL PRODUCTS INCREASE BY AN AMOUNT AT LEAST EQUAL TO THE INCREASES IN THE COST OF CRUDE OIL IMPORTS. THIS WILL REDUCE DISPOSABLE PRIVATE INCOME BY AN AMOUNT AT LEAST EQUAL TO THE BURDEN OF THE INCREASED PRICE OF CRUDE OIL. THE GOVERNMENT INTENDS TO INTRODUCE MEASURES TO ANTICIPATE IN 1974. THE PAYMENT OF CERTAIN TAXES COLLECTIBLE IN 1975. IT IS ESTIMATED THAT THIS MEASURE WILL REDUCE THE NEED FOR FINANCING BY THE TREASURY BY 500 BILLION LIRE. IT IS THE INTENT OF THE GOVERNMENT TO COMPEL A REDUCTION IN THE NEED FOR TREASURY FINANCING, AS WELL AS TO ADOPT METHODS FOR SUCH FINANCING WHICH WILL MINIMIZE INFLATIONARY EFFECTS ON THE ECONOMY.

7. PARA 6. IT IS ESTIMATED THAT THE NEED FOR TREASURY FINANCING WILL NOT EXCEED IN ANY CASE THE AMOUNT OF 9,200 BILLION LIRE DURING THE PERIOD JANUARY 1-DECEMBER 31, 1974. TAKING INTO ACCOUNT SEASONAL FACTORS, THIS TOTAL SUM IS COMPATIBLE WITH AN AMOUNT NOT EXCEEDING 4,600 BILLION LIRE FOR THE PERIOD JANUARY 1-JUNE 30, 1974  
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AND WITH AN AMOUNT NOT EXCEEDING 6,800 BILLION LIRE DURING THE PERIOD JANUARY 1-SEPTEMBER 30, 1974.

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8. PARA 7. CREDIT POLICY WILL BE COMPATIBLE WITH THE OBJECTIVE OF EXPANDING THE VOLUME OF FIXED INVESTMENT, IN ACCORDANCE WITH THE GOVERNMENT'S POLICY TO SUBSTANTIALLY INCREASE THE PRODUCTIVITY OF THE COUNTRY. IN THIS CONNECTION, THE POLICY WILL BE DIRECTED AT CHANNELLING THE FLOW OF NEW INVESTMENT EXPENDITURES INTO THE EXPORT SECTOR IN ORDER TO STRENGTHEN THE BALANCE OF PAYMENTS. THE GOVERNMENT IS FULLY AWARE OF THE NECESSITY TO LIMITED OFFICIAL USE

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RESTRUCTURE THE ECONOMY IN THE MEDIUM-TERM IN ORDER TO COMPENSATE FOR THE EFFECTS OF A WORSENING IN THE TERMS OF TRADE.

9. PARA 8. THE OBJECTIVES AND THE ECONOMIC POLICIES OF THE GOVERNMENT IMPLY AN EXPANSION OF TOTAL DOMESTIC CREDIT

NOT GREATER THAN 22,400 BILLION LIRE DURING THE TWELVE-MONTH PERIOD ENDING MARCH 31, 1975. THIS GLOBAL TOTAL IS COMPATIBLE, TAKING INTO ACCOUNT SEASONAL FACTORS, WITH AN AMOUNT NOT EXCEEDING 6,000 BILLION LIRE DURING THE PERIOD APRIL 1-JUNE 30, 1974; NOT EXCEEDING 11,000 BILLION LIRE DURING THE PERIOD APRIL 1-SEPTEMBER 30, 1974; AND NOT EXCEEDING 19,500 BILLION LIRE DURING THE PERIOD APRIL 1-DECEMBER 31, 1974. THIS LIMITATION ON THE EXPANSION OF CREDIT ASSUMES AN "OIL DEFICIT" OF 3,600 BILLION LIRE. IT IS UNDERSTOOD THAT, SHOULD THE DEFICIT BE LOWER OR HIGHER, THE LIMIT ON THE EXPANSION OF CREDIT WOULD BE ACCORDINGLY ADJUSTED. THE NECESSITY OF SUCH AN ADJUSTMENT WILL BE DETERMINED BY JULY 1974, AND ANY EVENTUAL ADJUSTMENT WOULD BE PUT INTO EFFECT ON THAT OCCASION.

10. PARA 9. WITH RESPECT TO CREDIT POLICY AND RATES OF INTEREST, THE GOVERNMENT WILL TAKE MEASURES TO MAINTAIN THE ALIGNMENT OF SHORT-TERM INTEREST RATES WITH THOSE PRESENTLY PREVAILING IN FOREIGN AND INTERNATIONAL FINANCIAL MARKETS. THE ABOVE-MENTIONED CREDIT AND INTEREST RATE POLICY WILL CONTRIBUTE TO THE DESIRED IMPROVEMENT IN NET FLOWS OF PRIVATE CAPITAL ABROAD. IT IS EXPECTED, HOWEVER, THAT FOR A CERTAIN PERIOD IT WILL BE NECESSARY TO MAINTAIN EFFECTIVE MEASURES FOR CONTROLLING CAPITAL MOVEMENTS OF CAPITAL ABROAD, INCLUDING MAINTENANCE OF THE PRESENT DUAL EXCHANGE RATE REGIME. THE ADEQUACY OF THE FOREIGN EXCHANGE CONTROLS LIMITING THE UNAUTHORIZED OUTFLOW OF CAPITAL WILL BE REVIEWED, BUT IT IS THE FIRM INTENTION OF THE GOVERNMENT NOT TO INTRODUCE NEW RESTRICTIONS ON PAYMENTS AND TRANSFERS, NOR MEASURES INVOLVING MULTIPLE EXCHANGE RATES APPLICABLE TO CURRENT TRANSACTIONS NOR NEW IMPORT RESTRICTIONS.

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11. PARA 10. THE GOVERNMENT OF ITALY BELIEVES THAT THE CURRENT RATE OF EXCHANGE FOR THE LIRA WHICH, ON THE BASIS OF A TRADE-WEIGHTED AVERAGE, HAS DEPRECIATED 17 PERCENT SINCE THE BEGINNING OF 1973 IS UNDER PRESENT CIRCUMSTANCES SUFFICIENT TO MAINTAIN ITALY'S COMPETITIVE POSITION AND IS NOT INCOMPATIBLE WITH PURSUIT OF ITS DOMESTIC AND FOREIGN OBJECTIVES. HOWEVER, IN THE PRESENT SITUATION THE GOVERNMENT BELIEVES IT NECESSARY TO CONTINUE THE FLOATING EXCHANGE RATE POLICY IN EFFECT SINCE FEBRUARY 1973. THE ITALIAN AUTHORITIES WILL UNDERTAKE CONSULTATIONS WITH THE IMF DURING THE PERIOD COVERED BY THE AGREEMENT, WITH RESPECT TO FOREIGN EXCHANGE POLICIES. SUCH CONSULTATIONS WILL TAKE

PLACE WHENEVER THE MANAGING DIRECTOR OF THE FUND TAKES  
THE INITIATIVE TO DO SO.

12. PARA 11. THE GOVERNMENT FEELS THAT THE ECONOMIC POLICIES  
OUTLINED IN THIS LETTER ARE ADEQUATE IN RELATION TO  
THE OBJECTIVES OF THE STABILIZATION PROGRAM BUT  
PLEDGES, NONETHELESS, TO TAKE ANY FURTHER MEASURES  
WHICH MAY BE REQUIRED. THE GOVERNMENT OF ITALY WILL  
UNDERTAKE CONSULTATIONS WITH IMF DURING THE PERIOD  
OF VALIDITY OF THE AGREEMENT CONCERNING THE ADOPTION  
OF MEASURES WHICH MAY BE REQUIRED UPON THE INITIATIVE  
OF THE ITALIAN GOVERNMENT OR WHENEVER THE MANAGING  
DIRECTOR OF THE FUND BELIEVES IT NECESSARY TO INITIATE  
CONSULTATIONS BASED ON NON-COMPLIANCE WITH ANY OF THE  
CONDITIONS PROVIDED FOR IN THE PRECEDING PARAGRAPHS  
6, 8 AND 9, OR BECAUSE THE MANAGING DIRECTOR BELIEVES  
CONSULTATION ON THE STABILIZATION PROGRAM TO BE  
ADVISABLE. IN ADDITION, AFTER EXPIRATION OF THE AGREEMENT,  
AND FOR PERIOD DURING WHICH LIRE BALANCES HELD BY  
THE FUND ARE IN EXCESS OF THE FIRST CREDIT TRANCHE,  
INCLUDING FOREIGN CURRENCIES DERIVING FROM PURCHASING  
MADE UNDER THE LINE OF CREDIT, THE GOVERNMENT OF  
ITALY WILL CONSULT WITH IMF FROM TIME TO TIME UPON  
INITIATIVE OF THE GOVERNMENT OR AT THE REQUEST OF THE  
MANAGING DIRECTOR OF THE FUND, WITH RESPECT TO THE  
BALANCE OF PAYMENT POLICIES ADOPTED BY ITALY. END QUOTE.  
END UNCLASSIFIED.VOLPE

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## Message Attributes

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